

Michaud Supports Oil Reserve as Option to Combat High Energy Prices

Wednesday, March 09 2011

WASHINGTON, DC – Today, Congressman Mike Michaud signed onto a letter to President Obama urging him to consider all options at his disposal as energy prices remain high and are forecasted to remain that way into the summer. On February 25th, Michaud sent a similar letter to the President, requesting that he consider utilizing the Strategic Petroleum Reserve (SPR) to alleviate rapid energy price escalations.

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“American consumers are already suffering from high energy prices and the effects of the economic downturn. In the long term, we need to develop clean energy alternatives that can reduce our dependence on oil and insulate us from supply shocks. Clean energy, fuel economy and innovation are American made solutions that will end our dangerous reliance on foreign oil and OPEC. However, in the short term, considering releasing oil from the SPR as we approach the summer driving season could help prevent oil prices from escalating as they did in 2008,” wrote Michaud and his colleagues.

The full text of the letter that Michaud and his colleagues are sending to the President can be found below.

The Honorable Barack Obama

President

The White House

1600 Pennsylvania Avenue

Washington, DC 20500

Dear President Obama:

This month, oil prices have spiked over \$106 per barrel on the New York Mercantile Exchange as unrest in the Mideast has intensified. This price spike is now directly impacting American consumers, with gasoline prices rising 34 cents in just 2 weeks. Markets are incorporating the increased risk of a prolonged civil war in Libya disrupting 2 percent of global supply for a sustained period as well as spreading regional tension bringing more supplies into question. While the current supply disruptions highlight the need to strengthen our energy independence over the long-term by developing alternatives to oil, we encourage you to consider utilizing the Strategic Petroleum Reserve (SPR) now -- the only tool we possess which can counter supply disruptions and combat crippling price spikes in the short term.

While Saudi Arabia and other OPEC members with available spare production capacity have pledged to raise production for lost Libyan crude, they also profit from oil price spikes and therefore have little incentive to quickly respond with the increased supply needed to calm markets. However, one tool that the United States has at its disposal to protect against the threat of supply disruptions and related speculation in the oil markets is the Strategic Petroleum Reserve. As we approach the summer driving season, we must carefully consider our only immediate option to mitigate the runaway increase in prices that we saw in the summer of 2008. We therefore urge you to consider leveraging the SPR to respond to supply disruptions and combat the rapid price escalations resulting from rampant fear and speculation in the oil markets.

Releasing oil from the SPR has a proven record of driving down prices. When President George H. W. Bush deployed oil from the SPR in 1991, oil prices immediately dropped by more than 33 percent. When President Clinton conducted a timed exchange of oil from the SPR in 2000, it again drove prices down by nearly 19 percent. And when President Bush released oil from the reserve in 2005 following Hurricane Katrina, oil prices fell by more than 9 percent.

Even before this recent spike in oil prices, the Department of Energy was forecasting high gas prices this summer. Earlier this month, the Energy Information Administration (EIA) projected that the nationwide average for regular gasoline would be \$3.20 per gallon during the summer driving season, with a 10 percent chance that prices would exceed \$4.00 per gallon. In addition, consumers are already facing substantially higher home heating costs this winter as well. Consumers heating with home heating oil are projected to spend more than 23 percent more this winter. Average expenditures on propane are projected to be more than 9 percent more.

Right now, the Strategic Petroleum Reserve holds 727 million barrels and is filled to capacity. Releasing even a small fraction of that oil could have a significant impact on speculation in the marketplace and on prices. It would also remind the world that the U.S. is ready, willing and able to use the SPR aggressively and effectively if needed. The FY2012 budget request already proposes a “\$500 million non-emergency sale of SPR oil.” On March 6, 2011, White House Chief of Staff William Daley stated on Meet the Press that “the issue of the reserves is one we’re considering.” We applaud the fact that your Administration is considering utilizing this tool and we encourage you to do so.

One issue deserving further examination would be whether the United States should deploy oil from the SPR now and replace it with refined petroleum product, such as gasoline and diesel fuel, in the longer term. Replacing a small percentage of the oil in the SPR with refined product would not only put downward pressure on prices in the short term but could also protect more adequately against future disruptions in domestic refining capacity or supply disruptions of heavy crude from countries like Venezuela. We therefore encourage you to analyze the impacts of a swap of oil in the SPR for refined product.

American consumers are already suffering from high energy prices and the effects of the economic downturn. In the long term, we need to develop clean energy alternatives that can reduce our dependence on oil and insulate us from supply shocks. Clean energy, fuel economy and innovation are American made solutions that will end our dangerous reliance on foreign oil and OPEC. However, in the short term, considering releasing oil from the SPR as we approach the summer driving season could help prevent oil prices from escalating as they did in 2008.

Thank you for your consideration of this request.

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